

Service Date: April 21, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER of the Application by	)	UTILITY DIVISION
GREAT FALLS GAS COMPANY for	)	
authority to establish increased rates	)	DOCKET NO. 80.6.33
for natural gas in the State of Montana.	)	ORDER NO. 4741b

APPEARANCES

FOR THE APPLICANT:

Richard F. Gallagher, Attorney at Law, Church, Harris, Johnson and Williams, P.O. Box 1645, Great Falls, Montana, appearing on behalf of the Applicant

FOR THE PROTESTANT:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana, appearing on behalf of the consuming public of the State of Montana

FOR THE INTERVENORS:

Phyllis A. Bock, Attorney at Law, Montana Legal Services, 616 Helena Avenue, Helena, Montana, appearing on behalf of Montana's Power to the People

William J. Weigel, Jr., Attorney at Law, 341 CSG/JA, Malmstrom AFB, Montana, appearing on behalf of the Executive Agencies of the United States

David Gliko, Attorney at Law, City Attorney of the City of Great Falls, Montana, Montana Building, appearing on behalf of the Great Falls Housing Authority

FOR THE COMMISSION:

Calvin K. Simshaw, Staff Attorney

BEFORE:

GORDON E. BOLLINGER, Chairman  
JOHN B. DRISCOLL, Commissioner  
HOWARD L. ELLIS, Commissioner  
CLYDE JARVIS, Commissioner  
THOMAS J. SCHNEIDER Commissioner

FINDINGS OF FACT

General

1. On June 5, 1980, the Great Falls Gas Company (GFG, the Company or Applicant) filed with the Commission its application for authority to increase rates and charges for natural gas utility service. The proposed rates are designed to produce an increase in annual gross operating revenues of \$498,459 for natural gas service, based on a test year ending December 31, 1979, adjusted for known and measurable changes.
2. On August 25, 1980 the Commission issued a procedural order.
3. The Montana Consumer Counsel (MCC) has participated in this Docket on behalf of utility customers since the inception of these proceedings.
4. On December 11, 1980, the Commission issued notice of public hearing on the application to adopt increased rates for gas service.
5. On January 8 and 9, 1981, pursuant to notice of public hearing, a hearing was held in Room 200, Civic Center, Great Falls, Montana.
6. On January 26, 1981 the Commission issued Order No. 4741 which granted interim relief in the amount of \$85,031.
7. On February 23, 1981 the Commission issued a second interim order (No. 4741a) in this Docket. Total interim relief was granted in the amount of \$265,868.

8. The 1979 test year is found by the Commission to be a reasonable period within which to measure Applicant's utility revenues, expenses and returns for the purpose of determining a fair and reasonable level of rates for natural gas service.

Capital Structure and Associated Costs

9. Applicant proposed the following capital structure and associated costs:

<u>Type</u>	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	51.6%	7.55%	3.90%
Common Equity	48.4	13.50	6.53
	<u>100.0%</u>		<u>10.43</u>

10. MCC proposed the following capital structure and associated costs:

<u>Type</u>	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	54.2%	7.55%	4.09%
Common Equity	45.8	13.50	6.18
	<u>100.0%</u>		<u>10.27</u>

Long-Term Debt

11. In the original filing the Applicant proposed long-term debt at December 31, 1979 in the amount of \$2,957,000. Mr. Creek in his rebuttal (Exh. 18) indicates that after subtracting the retirements made in 1980 the proper amount of long-term debt is \$2,650,000.

12. Mr. Buckley, witness for MCC, agreed during cross-examination that retirements in 1980 should be reflected in the capital structure. (Tr. p. 281)

13. Long-term debt in the amount of \$2,650,000 is agreed to by both the Applicant and MCC and is hereby accepted by the Commission.

14. The cost of long-term debt prior to retirements was found to be 7.55 percent by both the Applicant and MCC. In examining the cost of long-term debt the Commission is well aware of the fact that the retirements cause a change in that cost. A review of the record fails to indicate what effect the retirements had on the cost of long-term debt. In the absence of specific information relating to the retirements the Commission finds the cost of long-term debt to be 7.55 percent. Applicant is urged to provide more complete information in future cases.

#### Common Equity

15. MCC witness Buckley reduced the common equity filed by the Applicant (\$2,774,000) by \$272,000 to eliminate investment in nonutility property. Mr. Creek in his rebuttal testimony (Exh.16, p. 13) agrees with the adjustment made by MCC to eliminate common equity associated with nonutility property. Common equity in the amount of \$2,502,000 is agreed to by both the Applicant and MCC and is hereby accepted by the Commission.

16. The cost of common equity is not a controverted issue in this case. The cost of equity is based on the cost determined in Order No. 4602a (13.5%) which both MCC and Applicant found acceptable. The cost of 13.5% is found by the Commission to be the appropriate cost of equity in this Docket.

#### Rate of Return

17. Based on the findings for long-term debt and common equity, the following capital structure and costs are determined appropriate:

<u>Type</u>	<u>Amount</u>	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
-------------	---------------	------------------------------	-------------	--------------------------

Long-Term Debt	\$2,650,000	51.44%	7.55%	3.88%
Common Equity	<u>2,502,000</u>	<u>48.56</u>	13.50	<u>6.56</u>
	<u>\$5,152,000</u>	<u>100.0%</u>		<u>10.44</u>

#### Rate Base

18. Rate base was filed in the amount of \$6,097,248 by the Applicant. MCC proposed two adjustments which had the effect of reducing rate base.

19. The first adjustment in the amount of \$350,657 was removed from rate base to eliminate distribution plant not in service in the test period. In his rebuttal testimony Mr. Creek agreed that \$195,000 should be removed from rate base. (Exh. 16, p. 1). The Commission finds that \$195,000 associated with distribution plant should be eliminated from rate base.

20. The second adjustment in the amount of \$44,817 was removed from rate base to reflect average accruals for property taxes. MCC points out that funds to pay property taxes are received long before taxes are actually paid. Applicant notes that Mr. Hess had not performed a study of Great Falls Gas Company and also that items which increase working capital were left out of Mr. Creek's calculation of working capital. The fact that property taxes are received before they are paid does reduce the amount of working capital required by the Applicant. The Commission finds that \$44,817 associated with average accruals for property taxes should be eliminated from rate base.

21. During cross-examination Mr. Creek testified that construction work in progress had been included in rate base (Tr. p. 250). This Commission has had a consistent policy of not allowing CWIP in rate base. The Commission finds that \$4,404 associated with CWIP should be eliminated from rate base.

22. The following schedule sets forth the amount of \$5,853,027 which represents the rate base approved by the Commission.

Rate Base as filed	6,097,248
Less:	
Plant not in service	(195,000)
Average accruals property tax	(44,817)
Construction Work in Progress	<u>(4,404)</u>
Approved Rate Base	<u><u>5,853,027</u></u>

Cost of Service

Sales Volumes

23. As filed, the Applicant presented actual 1979 volumes normalized for weather and a linear projection for conservation. In rebuttal testimony Mr. Creek presented new sales volumes which were based on eleven months actual and one month estimated for 1980. The 1980 volumes were normalized for weather but did not include a linear projection for conservation.

24. MCC suggests that 1979 volumes normalized for weather be used, pointing out that since the filing is based on a 1979 test year, 1979 volumes are the correct measure of sales.

25. After a careful review of the arguments regarding volumes, the Commission notes that this question arose in the last Great Falls Gas case. In that proceeding the Commission found that test year volumes were the proper measure of sales. To use volumes outside the test year results in an improper matching of revenue and expense items measured by the test year. In addition, according to the Applicant, use of 1980 volumes would produce operating revenues in excess of the amount requested in the original filing.

26. MCC seeks to include volumes for 40 additional customers based upon testimony presented at the hearing. The inclusion of these volumes is not accepted by the Commission as the number of customers and the volumes associated with them are not known and measurable changes.

27. The Commission finds that the Phillips Petroleum load is not weather sensitive based upon the testimony presented by Mr. Creek (Tr. p. 245).

28. For the reasons noted in Finding of Fact No. 24 the Commission finds actual 1979 test year volumes adjusted for weather to be the appropriate sales volumes.

29. The Commission finds the test year sales volumes to be:

Residential	2,733,350
Commercial	2,078,363
USAF Base	763,161
Phillips Petroleum	276,457
Housing Authority	<u>42,948</u>
Test Year Sales Volume	5,894,279 MCF

30. Operating expenses should be adjusted for purchased gas associated with sales volumes in Finding of Fact No. 29.



	MCF
Test Year Sales Volumes	5,894,279
Company use & Unaccounted For @ 4.156% of Sales	<u>244,966</u>
Total @ 13.28 psia	6,139,245
@ \$2.9859 = \$18,331,171	

31. Operating Revenues should be adjusted consistent with sales volumes found in Finding of Fact No. 29.

$$\begin{aligned}
 1,125,140 @ \$2.833 &= \$ 3,187,522 \\
 4,769,139 @ \$3.7773 &= \underline{\$18,014,469} \\
 & \$21,201,991
 \end{aligned}$$

#### Customer Accounts

32. The Applicant proposed an increase in uncollectible accounts in the amount of \$43,948. MCC proposed a \$5,451 reduction due to a decrease in a Montana Power Docket and basing uncollectibles only on residential and commercial sales. In its proposed findings Applicant conceded the adjustment. The Commission accepts the \$5,451 reduction in uncollectibles proposed by MCC. The approved amount of expense for customer accounts is \$535,936.

#### Customer Services

33. The Applicant proposed various conservation programs which amounted to \$213,678 in increased customer service expenses. Mr. Buckley objected to a number of the programs on the basis that they fall outside the period normally used for known and measurable changes to the test year.

34. Included in the conservation programs was \$27,600 for new construction conservation. This program would provide cash incentives to builders who install energy efficient appliances specified by the Applicant. Market incentives are already at work to influence the installation of energy efficient appliances in new homes. There is no indication at this time that further incentives are required. The Commission rejects the new construction conservation program.

35. Mr. Buckley evaluated actual expense incurred through September, 1980. That figure was annualized and proposed as the appropriate expense level. The objective of conservation is one which the Commission supports fully. Energy conservation helps to reduce expense for ratepayers and conserve energy for future generations. The programs proposed by the applicant will provide immediate and long lasting benefits to the ratepayers on the Great Falls Gas System. The Commission accepts the proposed conservation programs with the exception of the new construction conservation program. The amount of customer service expense accepted by the Commission is \$204, 678.

#### Management Audit

36. Applicant proposed a management audit which amounted to \$50,000 which was not performed in the test period. MCC recommended elimination of this amount from expenses as an out of period adjustment. Applicant in its proposed findings conceded the adjustment. The Commission finds the removal of \$50,000 in administrative expenses proper. The approved amount of administrative and general expense is \$564,196.

#### Taxes

37. The preceding cost of service adjustments result in taxes of: Other Than Income Taxes of \$150,929, Federal Income Taxes of \$23,009, and State Taxes of \$4, 552.

### Revenue Requirement

38. The present rates, adjusted for known and measurable changes produce utility operating income of \$483,378 (see following cost of service schedule).

GREAT FALLS GAS COMPANY  
OVERALL COST OF SERVICE

	Actual 1979	<u>Adjustment</u>	Present <u>Rates</u>	<u>Adjustment</u>	Proposed <u>Rates</u>
OPERATING REVENUES	14,218,199	6,983,792	21,201,991	253,734	21,455,725
COST OF SERVICE:					
GAS PURCHASED	11,784,549	6,546,622	18,331,171		18,331,171
OTHER OPERATION:					
DISTRIBUTION	340,322	80,389	420,711		420,711
CUSTOMER ACCOUNTS	426,957	108,979	535,936		535,936
CUSTOMER SERVICES	18,600	186,078	204,678		204,678
ADMINISTRATIVE AND GENERAL	490,437	73,759	564,196		564,196
MAINTENANCE	117,658	37,173	154,831		154,831
DEPRECIATION	229,021	23,379	252,400		252,400
TAXES:					
OTHER THAN INCOME	103,698	47,231	150,929	178	151,107
FED. INC. – CURRENT					
(NET – INV. CR)	135,385	(112,376)	23,009	108,763	131,772
FED. INC. DEFERRED	50,036	26,164	76,200		76,200
STATE INC.	19,944	(15,392)	4,552	17,115	21,667
TOTAL	<u>13,716,607</u>	<u>7,002,006</u>	<u>20,718,613</u>	<u>126,056</u>	<u>20,844,669</u>
UTILITY OPERATING INCOME	<u>501,592</u>	<u>(18,214)</u>	<u>483,378</u>	<u>127,678</u>	<u>611,056</u>
RATE BASE	5,630,276	222,751	5,853,027		5,853,027
RATE OF RETURN	8.91%		8.26%		10.44%

39. The Commission finds that the additional revenues required in the Applicant's gas operation are \$253,734. This amount is computed as follows:

Great Falls Gas Company  
Revenue Deficiency

Rate Base	\$5,853,027	
Recommended Rate of Return		10.44%
Recommended Return		611,056
Adj. Ball Available for Return		<u>483,378</u>
Return Deficiency		127,678
Revenue Deficiency		253,734
MCC Tax @ .07%		<u>178</u>
State Taxable Income		253,556
Montana Corporation License Tax @ 6.75%		<u>17,115</u>
Federal Taxable Income		236,441
Federal Tax @ 46%		<u>108,763</u>
Income Available for Return		127,678

Rate Structure

40. In filing this case, Applicant chose to use the rate design implemented in Order No. 4602a. MCC did not present testimony relating to rate design. Two intervenors in this Docket (Department of Defense and Great Falls Housing Authority) presented rate design issues.

41. Great Falls Housing Authority sponsored three witnesses who presented testimony on the subject of lifeline discounts. Karen Hess, a Commissioner on the Housing Authority Board, testified in support of lifeline for the Housing Authority. Kevin Hager, the accountant for the Housing Authority, presented an exhibit which indicated that all of the consumption for the Authority would be within the lifeline rate. Mr. Hager indicated in his testimony that 200 units would be receiving individual meters (Tr. p. 100). Sherry Komeotis, a resident of Parkdale, presented a petition signed by 223 residents requesting lifeline for the Housing Authority (Exh. C).

42. During cross-examination Mr. Hager was asked "Do you know of any way that you can get individuals to conserve without being metered?" His answer, "Not any effective way" goes to the heart of the problem in granting a lifeline discount to customers who are not metered. The reason lifeline was established was to promote conservation. Granting a lifeline discount to any customer group whose individual usage is unknown flies in the face of reason. No change in lifeline rates will be granted to a class of customers whose individual usage is unmeasured.

43. The Department of Defense presented testimony and exhibits through its witness John Padilla. Mr. Padilla testified as to the effect of various conservation programs undertaken by the Air Force.

44. Where an individual is responsible for his or her energy usage (receives a bill and pays the bill) a lifeline discount provides a clear conservation incentive. If customers are metered their use can be ascertained and lifeline is a proper incentive. Both intervenors and other multiple unit customers have the option of requesting individual metered service from the Applicant. The general service rules in the tariffs on file with the Commission document how a customer goes about requesting metered service.

45. After a review of the record the Commission finds the rate design in Order No. 4602a appropriate for this Docket.

### CONCLUSIONS OF LAW

1. The Applicant, Great Falls Gas Company, is a "public utility" within the meaning of Montana law, Section 69-3-100, MCA.

2. The Commission properly exercises jurisdiction over the Applicant's rates and operations pursuant to Sections 69-3-102 and 69-3-302, MCA.

3. The rate structures authorized by the Commission, based upon Order No. 4602a, are just, reasonable, and not unjustly discriminatory.

### ORDER

#### THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Great Falls Gas Company shall file rate schedules which reflect an annual revenue increase of \$253,734 for gas service, based on the test period ending December 31, 1979.

2. The increased gas revenues authorized herein shall be distributed to Applicant's classes of service using the rate design in Order No. 4602a. Both intervenors have the option of becoming eligible for the lifeline discount (see Finding of Fact No. 44).

3. Applicant shall file revised schedules incorporating the changes in its rate schedules approved herein. The Schedules shall become effective for service rendered after approval of said schedules.

4. Order No. 4741a granted interim relief of \$265,868 which is \$12,134 higher on an annual basis than the revenue level in this order. This, given the time rates were in effect, generates a rebate of approximately \$2,000. In order to grant a rebate the Applicant would have to reprogram their computer, change billings, and perform a detailed analysis. The amount of the rebate in this Docket is far too minor to justify the large expense of implementing such a plan. In the interest of fairness to both the ratepayer and the Applicant, the Commission hereby waives the rebate in this Docket.

5. All motions and objections not ruled upon at the hearing are denied.

DONE IN OPEN SESSION at a meeting of the Montana Public Service Commission held April 20, 1981, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

---

Gordon E. Bollinger, Chairman

---

Howard L. Ellis, Commissioner

---

Thomas J. Schneider, Commissioner

---

John B. Driscoll, Commissioner

---

Clyde Jarvis, Commissioner

ATTEST:

Madeline L. Cottrill  
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (103) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806, ARM.